ATTACHMENT D

to

Comments of Western Wireless

in

FEDERAL-STATE JOINT BOARD ON UNIVERSAL SERVICE SEEKS COMMENT ON CERTAIN OF THE COMMISSION'S RULES RELATING TO HIGH-COST UNIVERSAL SERVICE SUPPORT AND THE ETC DESIGNATION PROCESS

CC Docket No. 96-45

May 5, 2003

The Myths and Realities of the Impact of CETCs on the High Cost Federal Universal Service Fund

by

Western Wireless Corporation

Western Wireless Corporation
Gene DeJordy, Vice President of Regulatory Affairs
Jim Blundell, Director of External Affairs
Mark Rubin, Director of Federal Government Affairs
3650 131st Avenue SE, Suite 400
Bellevue, Washington 98006
425-586-8700

May 5, 2003

The Myths and Realities of the Impact of CETCs on the High Cost Federal Universal Service Fund

I. INTRODUCTION

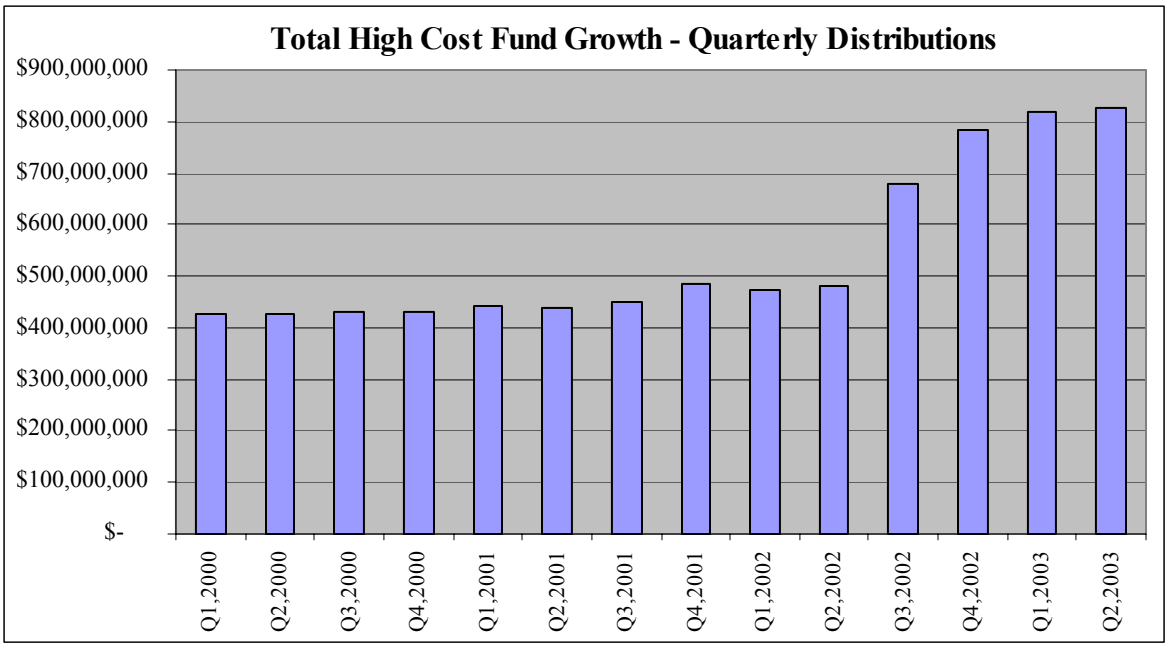
This paper provides a critical analysis of the federal Universal Service Fund ("USF"), focusing on high-cost fund distributions and contributions to the USF. Contrary to the unsupported claims by incumbent local exchange carriers ("ILECs") and their associations that the federal USF is growing at an unsustainable rate due to the growth in the number of wireless carriers that have obtained competitive eligible telecommunications carrier ("CETC") status, data available from the Universal Service Administrative Company ("USAC") and from the FCC conclusively shows that the fund growth is largely attributable to increases in ILEC funding not CETC funding. The data also shows that wireless CETCs contribute significantly more into the USF than they receive from the fund, and that the ILECs receive significantly more from the fund than they contribute into the fund.

II. USF DISTRIBUTIONS

A. Overall Growth in USF Distributions

Overall, USF distributions have increased in recent years. The most recent figures available for the high-cost USF indicate a 93% increase in distributions from the first quarter of 2000 to the second quarter of 2003. Figure 1 shows that high-cost fund distributions in the first quarter of 2000 were approximately $420 million and grew to approximately $825 million in the second quarter of 2003.

Figure 1. Overall Growth in USF Distributions – Graph

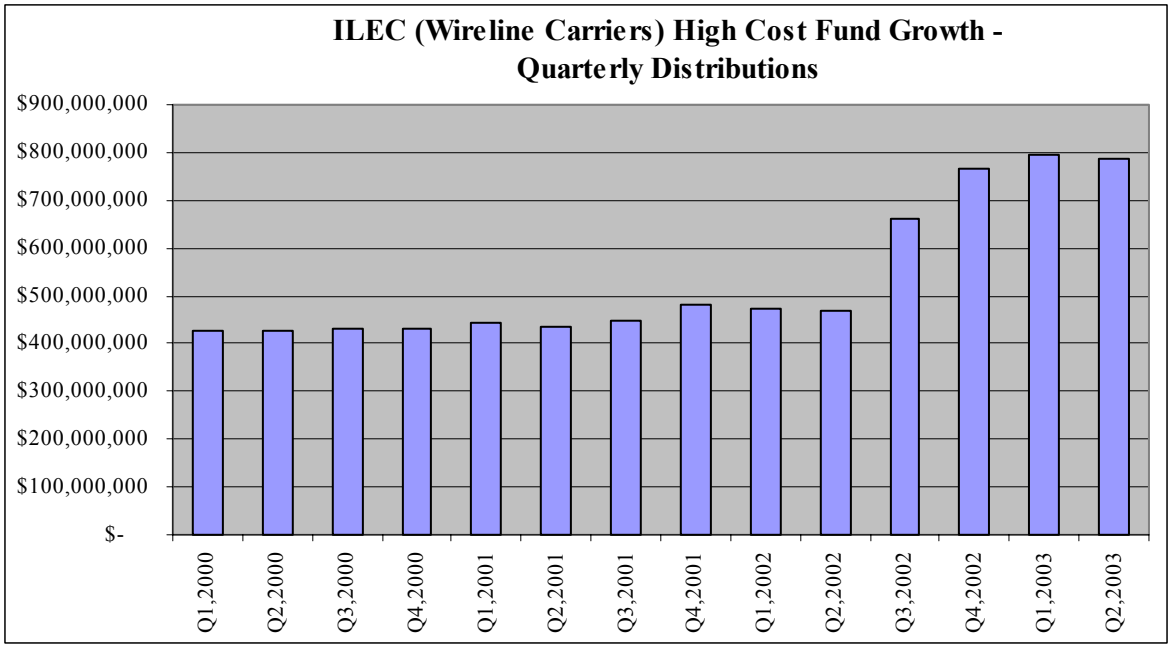


ILECs and their associations argue that the growth in high-cost fund distributions is an alarming trend that must be controlled, not through more efficient wireline operations, but through the elimination of competition in rural areas and CETC funding. A critical analysis of the facts, however, proves that the growth in ILEC high-cost distributions is the true cause of any "alarming trends" in the growth of the federal USF.

B. Growth in USF Distributions to Wireline Carriers

As previously shown, total quarterly USF distributions for the second quarter of 2003 is projected to be are nearly $825 million. Figure 2 shows that almost $788 million of the projected USF distributions in second quarter 2003 will go to the ILECs, which represents an 84% growth in ILEC funding from the first quarter 2000.

Figure 2. Growth in USF Distributions to Wireline Carriers - Graph



C. Growth in USF Distributions to CETCs

In the second quarter of 2003, total CETC distributions were approximately $37 million, or about 4.5% of the $825 million in total distributions. Only 6.4% of the carriers receiving support in second quarter 2003 were CETCs – a total of 92, compared to 1,437 ILECs receiving support. A comparison of ILEC high-cost support and CETC high-cost support clearly shows that CETCs are not primarily responsible for the recent growth in the USF. Figure 3 and 4 show that CETCs began entering the universal service market in the year 2000, four years after the Telecommunications Act of 1996 ("1996 Act") required the removal of barriers to the entry of competitive carriers into the universal service market.

Upon entry into the universal service market in 2000, CETCs have gradually obtained a very limited market share. That is, only a 4.5% market share seven years following passage of the 1996 Act.

Figure 3: Number of Carriers Receiving High-Cost Support – Graph

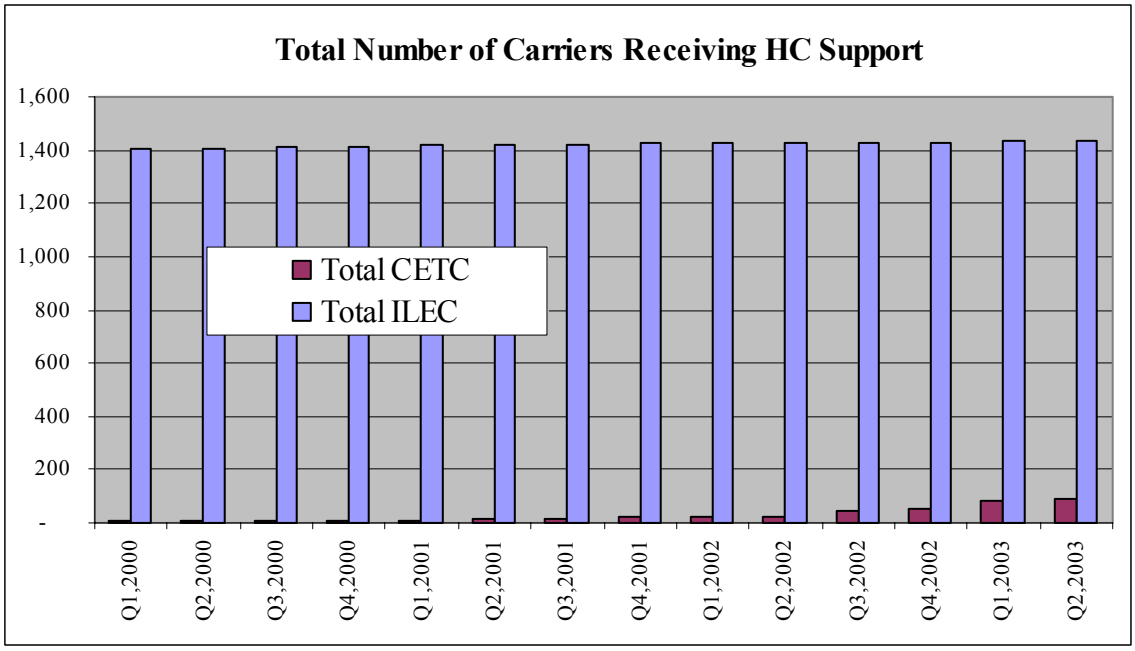


Figure 4: Number of Carriers Receiving High-Cost Support - Table

	CETC	ILEC	
Quarter	Total CETC	Total ILEC	Total Number of Carriers
Q1,2000	7	1,408	1,415
Q2,2000	8	1,408	1,416
Q3,2000	8	1,409	1,417
Q4,2000	8	1,409	1,417
Q1,2001	9	1,422	1,431
Q2,2001	12	1,422	1,434
Q3,2001	12	1,422	1,434
Q4,2001	20	1,426	1,446
Q1,2002	22	1,428	1,450
Q2,2002	22	1,428	1,450
Q3,2002	44	1,428	1,472
Q4,2002	50	1,429	1,479
Q1,2003	82	1,437	1,519
Q2,2003	92	1,437	1,529

Figures 5 and 6 below, compare distribution amounts between CETCs (further divided into wireless and non-wireless carriers) and ILECs over the past 14 quarters. The data shows that ILEC funding has grown by approximately $360 million, whereas wireless CETC funding has grown by approximately $35 million. So, who is responsible for the growth in distributions for the high-cost fund? The data shows that the ILECs were responsible for approximately 90% of the growth in high-cost distributions (e.g., $360 million of $395 million).

Figure 5: Quarterly High-Cost Distributions by Carrier Type - Graph

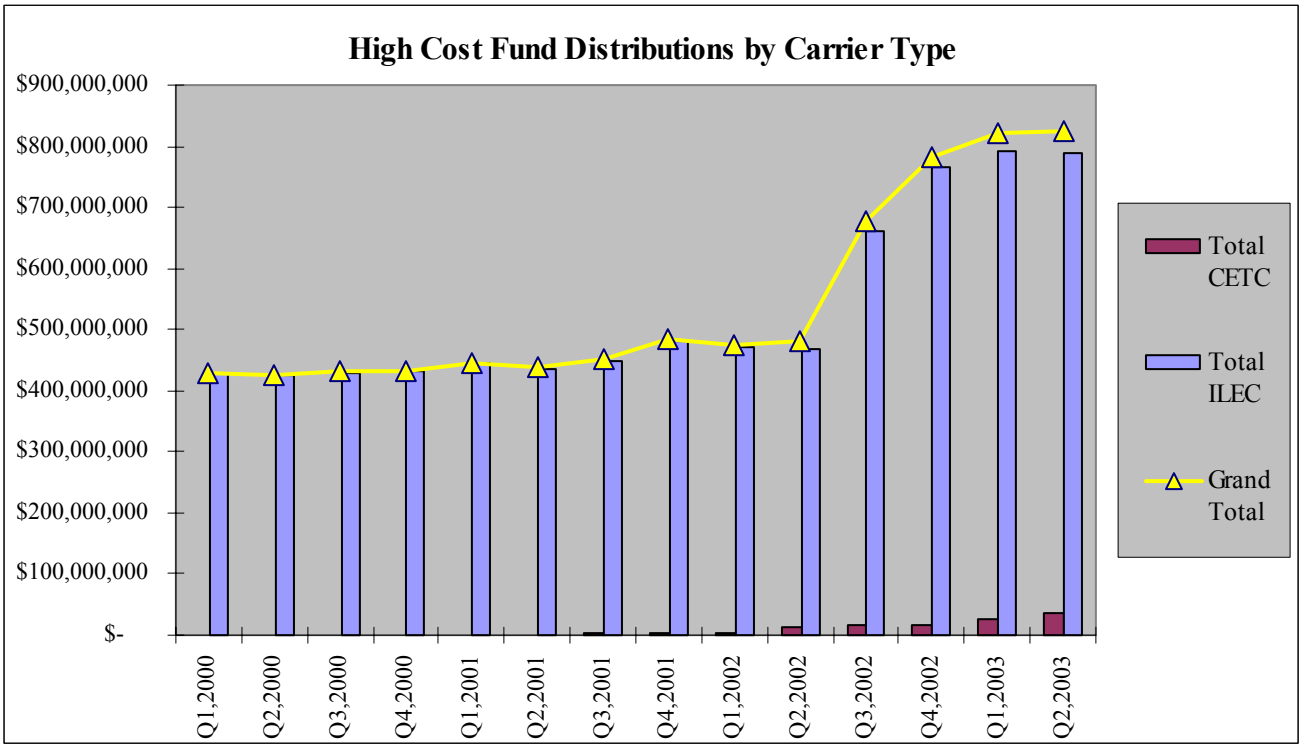


Figure 6: Quarterly High-Cost Distributions by Carrier Type -Table

	CETC Distributions			ILEC Distributions	Total Distributions
Quarter	*Non Wireless CETC*	*Wireless CETC*	Total CETC	Total ILEC	Grand Total
Q1,2000	*$ -*	*$ 349,605*	$ 349,605	$ 427,670,034	$ 428,019,639
Q2,2000	*$ -*	*$ 360,537*	$ 360,537	$ 426,655,875	$ 427,016,412
Q3,2000	*$ -*	*$ 533,019*	$ 533,019	$ 430,347,216	$ 430,880,235
Q4,2000	*$ -*	*$ 532,566*	$ 532,566	$ 430,789,830	$ 431,322,396
Q1,2001	*$ 6,846*	*$ 169,383*	$ 176,229	$ 443,858,967	$ 444,035,196
Q2,2001	*$ 3,681*	*$ 364,239*	$ 367,920	$ 436,693,716	$ 437,061,636
Q3,2001	*$ 3,423*	*$ 2,412,550*	$ 2,415,973	$ 449,198,550	$ 451,614,523
Q4,2001	*$ 44,601*	*$ 2,677,822*	$ 2,722,423	$ 481,710,855	$ 484,433,278
Q1,2002	*$ 79,464*	*$ 1,997,127*	$ 2,076,591	$ 470,990,460	$ 473,067,051
Q2,2002	*$ 62,085*	*$ 11,915,662*	$ 11,977,747	$ 468,089,232	$ 480,066,979
Q3,2002	*$ 799,326*	*$ 15,577,017*	$ 16,376,343	$ 662,031,501	$ 678,407,844
Q4,2002	*$ 830,637*	*$ 14,964,186*	$ 15,794,823	$ 767,409,712	$ 783,204,535
Q1,2003	*$ 1,041,585*	*$ 25,611,528*	$ 26,653,113	$ 793,434,337	$ 820,087,451
Q2,2003	*$ 979,338*	*$ 35,873,121*	$ 36,852,458	$ 787,724,725	$ 824,577,184

Figures 7 and 8 identify the percentage of high-cost fund distributions attributable to CETCs and ILECs. That data shows that CETCs have only a marginal share of the universal service market due in large part to the significant barriers that must be overcome to enter the universal service market. Wireless CETCs represent a mere 4.35% of distributions as of the second quarter of 2003, and all CETCs together represent only 4.47% of distributions. Thus, despite the recent growth in CETCs receiving high-cost support, more than 95.5% of high-cost distributions still go to ILECs.

Figure 7. Share of High-Cost Distributions by Carrier Type - Graph

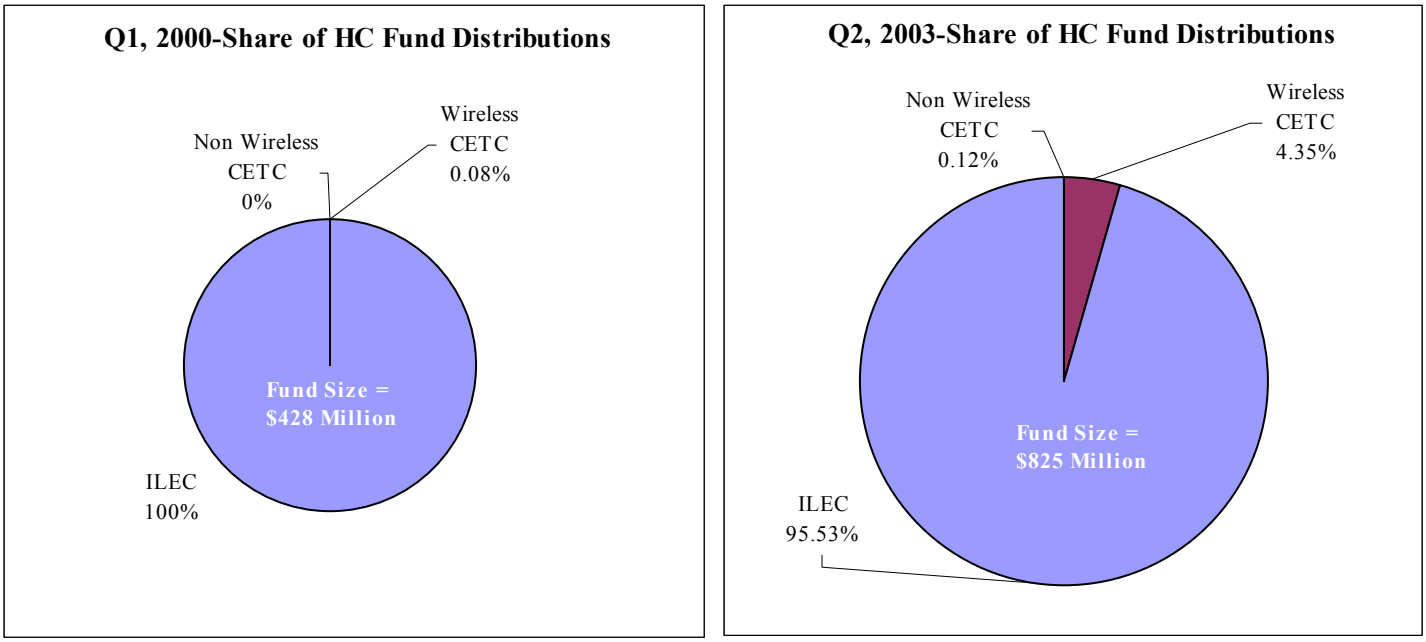
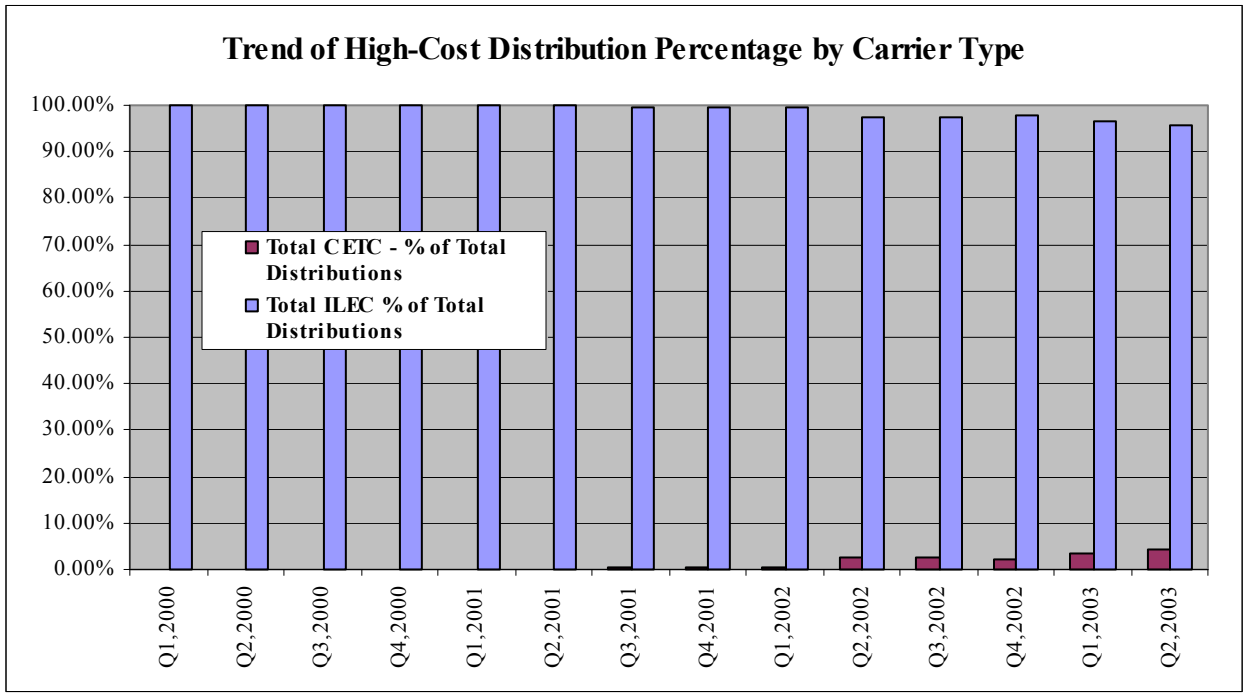


Figure 8: Share of High-Cost Distributions by Carrier Type - Table

	CETC Distributions - Percent of Total			ILEC Distributions - Percent of Total	Total Distributions
Quarter	*Non Wireless CETC - % Total*	*Wireless CETC - % Total*	Total CETC - % of Total Distributions	Total ILEC % of Total Distributions	Grand Total
Q1,2000	*0.00%*	*0.08%*	0.08%	99.92%	$ 428,019,639
Q2,2000	*0.00%*	*0.08%*	0.08%	99.92%	$ 427,016,412
Q3,2000	*0.00%*	*0.12%*	0.12%	99.88%	$ 430,880,235
Q4,2000	*0.00%*	*0.12%*	0.12%	99.88%	$ 431,322,396
Q1,2001	*0.00%*	*0.04%*	0.04%	99.96%	$ 444,035,196
Q2,2001	*0.00%*	*0.08%*	0.08%	99.92%	$ 437,061,636
Q3,2001	*0.00%*	*0.53%*	0.53%	99.47%	$ 451,614,523
Q4,2001	*0.01%*	*0.55%*	0.56%	99.44%	$ 484,433,278
Q1,2002	*0.02%*	*0.42%*	0.44%	99.56%	$ 473,067,051
Q2,2002	*0.01%*	*2.48%*	2.50%	97.50%	$ 480,066,979
Q3,2002	*0.12%*	*2.30%*	2.41%	97.59%	$ 678,407,844
Q4,2002	*0.11%*	*1.91%*	2.02%	97.98%	$ 783,204,535
Q1,2003	*0.13%*	*3.12%*	3.25%	96.75%	$ 820,087,451
Q2,2003	*0.12%*	*4.35%*	4.47%	95.53%	$ 824,577,184

Figure 9 below portrays the market share of the incumbent carriers and competitive carriers over the last 14 quarters. It clearly shows that the ILECs serving customers in high-cost, rural areas have not lost much market share (and have lost little or no universal service support), notwithstanding the significant efforts of 92 CETCs (see Figure 4) to enter the universal service market.

Figure 9: Trend of High-Cost Distribution Percentage by Carrier Type - Graph



In sum, Figures 1 through 9 demonstrate that USF growth is not largely attributable to increasing numbers of new carriers seeking support, but instead is attributable to additional support provided to the ILECs. While the number of CETCs receiving support grew by 70 over the last year, from 22 in Q2 2001 to 92 in Q2 2002 (see Figure 4), the amount of support received by CETCs as a percentage of total support has only grown from only 2.5% to 4.47% (see Figure 8). In contrast, in the last year alone, high-cost distributions to ILECs increased by almost $300 million. During the same time period, the growth in distributions to CETCs was approximately $24 million.

III. USF CONTRIBUTIONS

CETCs contribute far more to the USF than they receive in high-cost distributions. ILECs, on the otherhand, receive more in high-cost distributions than they pay into the fund. The following charts illustrate these points.

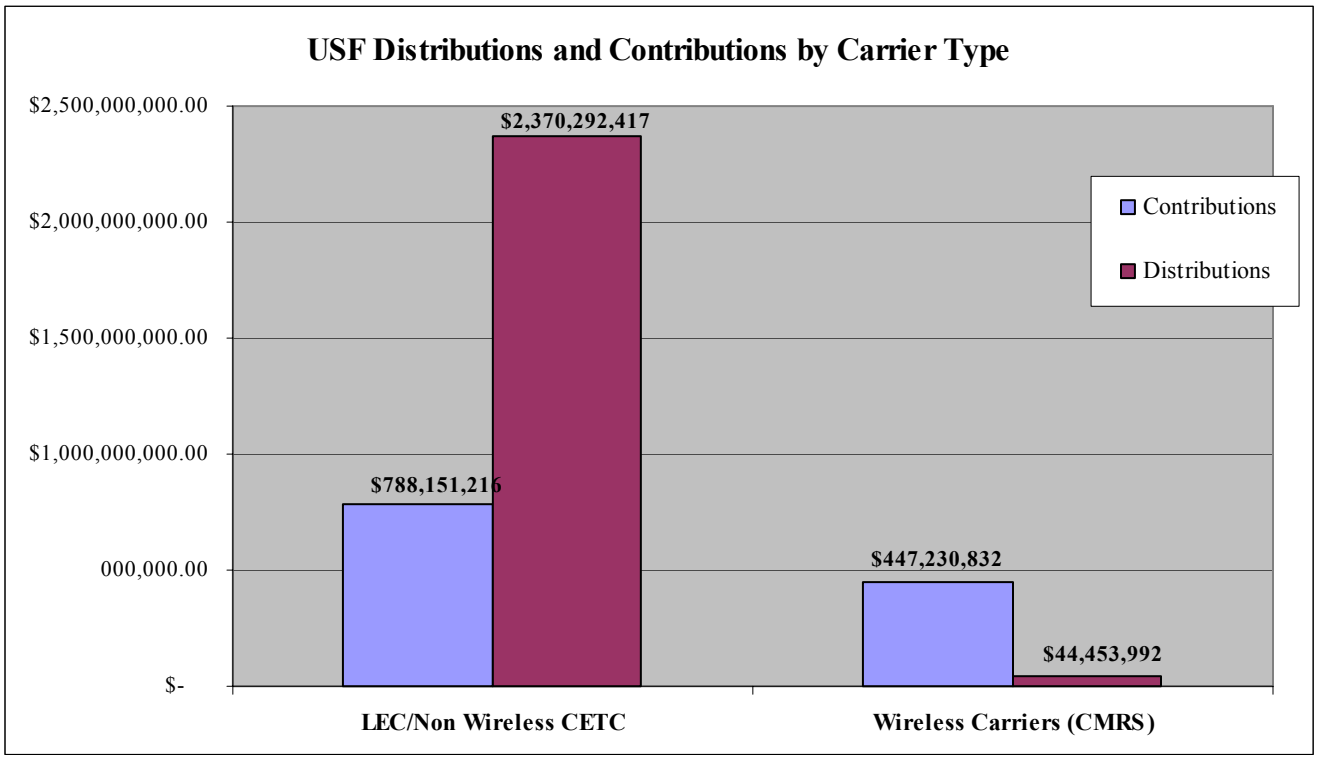
Figures 10 and 11 compare high-cost distributions and contributions in 2002 between wireless carriers and other carriers. The data shows that wireless carriers contributed more than $447 million to the USF in 2002, but yet only received $44.4 million in high-cost

distributions, less than one-tenth of the amount contributed. In contrast, ILECs and other carriers received nearly as much in distributions ($2.3 billion) as they contributed ($2.5 billion).

Figure 10. 2002 USF High Cost Distributions and Contributions -Table

	LEC/Non Wireless CETC	Wireless Carriers (CMRS)
Contributions	$ 788,151,216.32	$ 447,230,832.00
Distributions	$ 2,370,292,416.75	$ 44,453,991.67

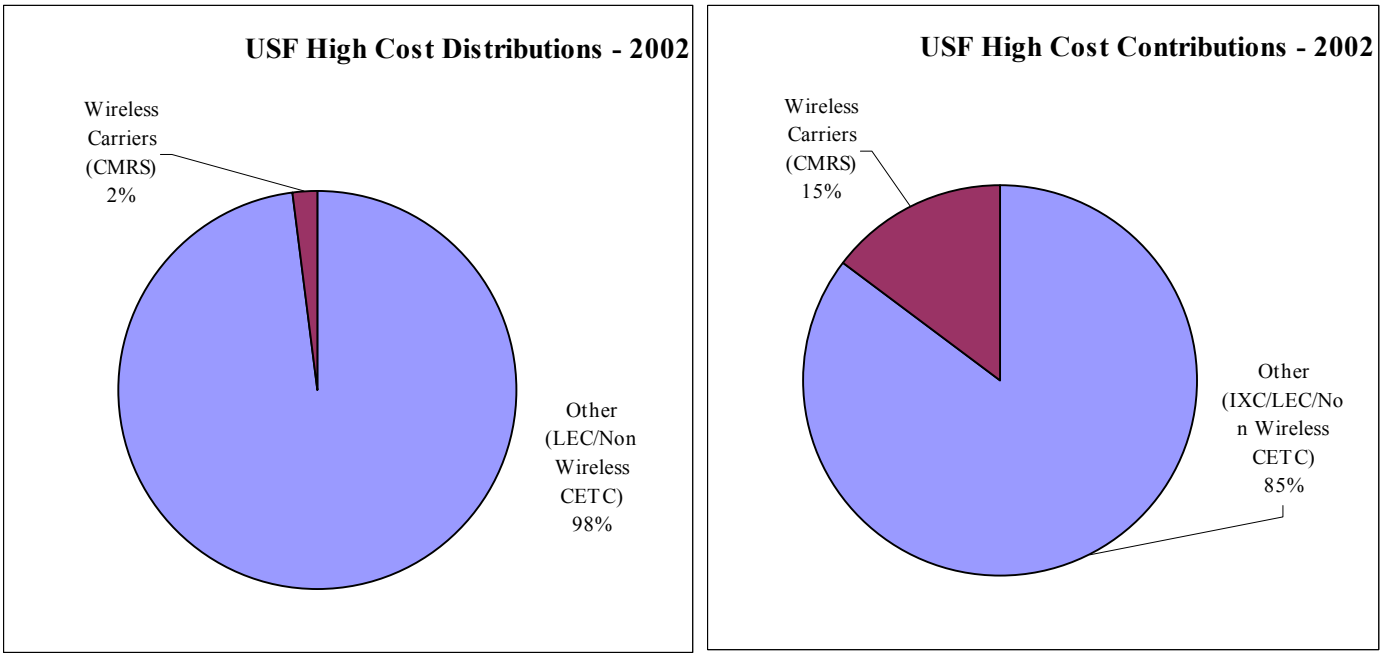
Figure 11. 2002 USF Distributions and Contributions by Carrier Type – Graph



Wireless carriers contribute a much higher percentage to the USF than they receive in high-cost distributions. Figure 12 depicts this discrepancy. The chart on the left shows that wireless carriers receive approximately 2% of high-cost distributions from the USF. The chart on the right shows that wireless carriers are responsible for approximately 15% of contributions to the USF. The disparity between wireless carrier contributions into the USF and distributions from the USF will only become more extreme over time. This is so because in

December 2002, the FCC issued an interim order in which it raised the percentage of a wireless carrier's revenues presumed to be interstate and thus subject to USF assessment from 15% to 28.5%. As a result of this change, wireless CETC contributions to the USF will increase significantly. No comparable increase in contributions from wireline carriers is contemplated at this time.

Figure 12: Wireless Carriers as Percentage of Total Distributions and Contributions - Graph [1]



**IXC carriers receive no distributions*

V. CONCLUSION

The data presented in this paper demonstrates that CETCs are not primarly responsible for the growth in the USF, contrary to the claims by ILECs and their associations. While CETCs have gradually increased their market share, which is entirely expected given that CETCs had no market share three years ago, distributions to CETCs still represent less than 5% of total high-cost distributions.

1. Source Data: Distributions: USAC HC01 appendices Q1 2002 - Q4 2002 Wireless Carriers determined by carrier "Type" as indicated by the value of X and telco name identification in the HC01 appendices. Contributions: FCC USF Staff Studies - Projected Assessments Under Revenue-Based Methodology Share of USF Fund that is High Cost was set at 47.26% of total USF Fund. This was based on an average of 6 quarters (Q1 2000 - Q2 2001) of Fund share. Universal Service Monitoring Report - CC Docket No. 98-202 - October 2001.